



25 Sigourney Street
Hartford CT 06106-5032

STATE OF CONNECTICUT DEPARTMENT OF REVENUE SERVICES

PS 2007(5)

POLICY STATEMENT

Sales Tax Treatment of Coupons, Scan Cards, Cash Equivalents, Promotional Items, and Rebates

Purpose: This Policy Statement describes the calculation of gross receipts subject to sales and use taxes when coupons or electronic price reduction cards (scan cards) are used to make purchases of tangible personal property or taxable services. This Policy Statement also describes the tax treatment of cash equivalents, promotional items furnished by retailers, and rebates.

Effective Date: Effective upon issuance.

Statutory Authority: Conn. Gen. Stat. §12-407(a)(8)(A) and (9)(A); Conn. Gen. Stat. §12-410(4)(a); and Conn. Gen. Stat. §12-411(12)(A).

All Coupons and Scan Cards Reduce Taxable

Price: The terms sales price and gross receipts are defined in Conn. Gen. Stat. §12-407(a)(8)(A) and (9)(A) to exclude cash discounts allowed and taken on sales, and to exclude the full face value of any coupon used by a purchaser to reduce the price paid to the retailer for an item of tangible personal property, whether or not the retailer will be reimbursed for the coupon, in whole or in part, by the manufacturer of the item of tangible personal property or by a third party.

Coupons: A coupon entitles a purchaser to an immediate reduction in the sales price of an item when the coupon is presented to a retailer. No additional action is required of the purchaser. Some examples of typical coupons include cents off; two for the price of one; buy one, get one free; or one cent sale coupons. Coupons may be issued by a manufacturer, a retailer, or another third party. It does not matter whether the retailer can obtain reimbursement for the coupon from a manufacturer or another third party.

Sales and use taxes must be calculated on the sales price net of all price reductions from coupons. Any additional value assigned by the retailer, such as to double or triple the coupon, is also excludable from the sales price.

Scan cards: Like coupons, scan cards function as discounts given by the retailer that issues the cards. Therefore, a discount given by a retailer in connection with the use of the retailer's scan card is excludable from the measure of tax. Sales and use taxes must be calculated on the reduced sales price, net of all scan card price reductions.

Example: A supermarket advertises a weekly special on laundry detergent, reducing the price from \$5.99 to \$4.99 if the customer uses the store's scan card. A customer purchases the laundry detergent using the store's scan card and a manufacturer's coupon with a face value of \$0.50. In addition, the store triples the coupon to increase its value by another \$1.00. The final price of the detergent to the customer is \$3.49. The sales tax due on the purchase of the detergent is \$.21, which is 6% of \$3.49 (\$5.99 minus the scan card price reduction of \$1.00 and minus the \$1.50 from tripling the face value of the coupon). See *Cash Equivalents*, Example 2, for purchases made that consist of both taxable and nontaxable items.

Dollars-Off or Percentage-Off Coupons: *Dollars-off* or *percentage-off* coupons reduce the total amount of all items purchased by either a dollar amount or a percentage. They are typically mailed to customers, cut out of newspapers or printed out at cash registers for future purchases.

Sales tax on dollars-off or percentage-off coupons is calculated on the sales price net of the price reduction. The price reduction must be allocated between the sales prices of the taxable and nontaxable items being purchased.

Example: A department store places an ad in the newspaper with a \$20 off entire purchase coupon. A customer presents the \$20 off entire purchase coupon to the cashier along with the following items:

Jacket	\$70.00
Skirt	\$54.00
Shirt	\$16.00
Watch	\$50.00
Coffee mug	<u>\$10.00</u>
Total	\$200.00

The prices will be reduced by the coupon as follows:

Item	Calculation	Reduced Sales Price
Jacket \$70.00	(\$20 coupon x \$70/\$200) = \$7 reduction from coupon	\$ 63.00
Skirt \$54.00	(\$20 coupon x \$54/\$200)= \$5.40 reduction from coupon	\$ 48.60
Shirt \$16.00	(\$20 coupon x \$16/\$200) = \$1.60 reduction from coupon	\$ 14.40
Watch \$50.00	(\$20 coupon x \$50/\$200) = \$5.00 reduction from coupon	\$ 45.00
Coffee mug \$10.00	(\$20 coupon x \$10/\$200) = \$1.00 reduction from coupon	\$ 9.00
Total \$200.00		\$180.00

The sales tax is calculated on the \$63 jacket (clothing \$50 and over is taxable), the \$45 watch, and the \$9 coffee mug. There is no tax on the \$48.60 skirt and \$14.40 shirt (no tax on clothing under \$50).

Total sales tax: \$7.02 (\$63 + \$45 + \$9) x 6% = \$7.02

Discount for Opening or Using Store Charge

Account: Some retailers offer an incentive for a customer to open a new store charge account or to use an existing store charge account by giving the customer a discount of a percentage of the customer's next purchase using the store charge card. The discount is reflected on the retailer's next bill to the customer. Because the customer is not required to take any additional action once he or she makes the purchase using the store charge account, the discount is irrevocably applied at the time of the sale and so only the reduced sales price, net of the discount, is subject to tax. If the discount for opening or using a store charge account applies to multiple items purchased that day, see the *Dollars-Off or Percentage-Off Coupons* section for guidance.

Cash Equivalents: Cash equivalents are items purchased that entitle a person to redeem them in the future to receive tangible personal property or services. Examples of cash equivalents include, but are not limited to dine out cards, entertainment coupon books, vouchers, gift certificates, and trading stamps (whether or not the items are called coupons). Cash equivalents are deemed to be intangible rights to acquire tangible personal property or services in the future and thus are not taxed when acquired. However, the redemption of a cash equivalent is taxable based on the retail price of the tangible personal property or services for which the cash equivalent is redeemed.

Example 1: An individual receives a gift certificate for her birthday entitling her to \$50 towards the purchase of goods at a particular store. No tax was due on the purchase of the gift certificate. When the gift certificate is redeemed to purchase a taxable item with a retail price of \$48, the tax due is \$2.88 and the individual redeeming the gift certificate must pay \$.88 in addition to surrendering the gift certificate to the retailer.

Example 2: An individual received a gift certificate for \$100 from a department store and purchased both **taxable and nontaxable** items as follows:

Blouse	\$20.00
Jacket	\$60.00
Coffee mug	\$10.00
Key chain	<u>\$10.00</u>
Total	\$100.00

The sales tax is calculated on the \$60 jacket (tax on clothing \$50 and over), the \$10 coffee mug, and the \$10 key chain. There is no tax on the \$20 blouse (no tax on clothing under \$50). The individual using the gift certificate must pay \$4.80 tax in addition to surrendering the gift certificate to the retailer.

Example 3: An individual purchases a dine out card for \$100 that entitles the bearer to receive a second meal of equal or lesser value at no charge upon purchasing a meal at a particular restaurant. No tax is due on the purchase of the dine out card. When the individual uses the dine out card to receive the free meal, which would ordinarily have been sold for \$20, he or she must pay \$1.20 in sales tax on the free meal in addition to presenting the dine out card to the restaurant.

Rewards and Points Programs: Purchasers may be offered *rewards* or *points* when making purchases that can be redeemed for reduced prices on future purchases. How the rewards or points are treated for

sales tax purposes depends on whether they are reimbursed by a third party.

Rewards Programs: Some retailers offer a *rewards* program in which the customer earns rewards by presenting the retailer's rewards card when making purchases at the store. The retailer may automatically send the customer a certificate representing the accumulated rewards, or the customer may be able to print a certificate from the retailer's website, and the customer uses the rewards certificate to reduce the total price of future purchases. These rewards are a discount given by the retailer, and like coupons, the rewards reduce the price paid for the purchase before sales tax is calculated.

Points Programs: Another type of cash equivalent is where a third party, such as a credit card bank, issues *points* to its customers that are used to reduce the sales price for merchandise or services purchased from retailers, typically by being converted to a gift card, certificate, coupon, or a special code that the customer uses to make the purchase. The third party provides consideration to the retailer as reimbursement for the reduction of the sale price granted to the customer for redeeming the points.

Tax is due on the sales price of the taxable merchandise or services before the price reduction is made.

Example: A customer redeems 10,000 points with a credit card bank for a \$100 gift certificate to a retailer that participates in the credit card bank's rewards program. The customer purchases luggage from the retailer for a sales price of \$150, paying the retailer with the \$100 gift certificate and \$50 cash. The sales and use taxes apply to the sales price of \$150 and so the customer pays \$9 sales tax on the transaction ($(\$100 + \$50) \times 6\% = \$9$).

Promotional Items: A retailer may purchase without tax tangible personal property to be resold, without regard to the amount the retailer intends to charge for the property, as long as the retailer makes no use of the property other than retention, demonstration, or display while holding it for sale in the regular course of business (Conn. Gen. Stat. §§12-410(4)(a) and 12-411(12)(A)). Thus, when a retailer charges any amount to a customer for a promotional item, such as with a one cent sale, the retailer is making a retail sale of the item and may purchase the item on resale. The retailer must charge tax based on its gross receipts from the sale unless the sale is exempt, such as when made to an exempt organization or a governmental entity.

Sometimes a retailer transfers tangible personal property at no charge to a customer, where the transfer is not in connection with a sale such as a two for the price of one; buy one, get one free; or similar offer. The retailer may or may not require the customer to redeem a coupon to receive the property being given away. The retailer is making a taxable use of the item being given away and must pay use tax on its purchase price for the item.

Example 1: A convenience store gives away an ice scraper with the purchase of \$10 worth of goods. The retailer is not making a retail sale of the item but is using it for promotional purposes. Therefore, if the retailer purchased the ice scraper on resale, use tax is due from the retailer based on the purchase price paid by the retailer for the ice scraper.

Example 2: The same store sells two ice scrapers for the price of one and offers a sale where if a customer buys one candy bar, a second one is free. The retailer is making retail sales of both ice scrapers and both candy bars at discounted prices and may purchase the items on resale.

Rebates: Retailers must collect tax on the full sales price paid for tangible personal property or taxable services even though the purchaser may later obtain a cash rebate from the manufacturer or other third party. The terms sales price and gross receipts are defined in Conn. Gen. Stat. §12-407(8)(A) and (9)(A) to include the total amount for which tangible personal property is sold; the total amount received for any service rendered; or the total amount of payment or periodic payments received for leasing or rental of tangible personal property. Because the initial purchase of the item and the honoring of a rebate claim by the manufacturer are two separate and distinct transactions, the rebate **does not reduce** the sales price paid for the item.

Manufacturers of motor vehicles frequently offer cash rebates on particular models to purchasers, who then typically assign the rebates to the dealerships in order to reduce the amount the purchasers pay for the vehicles. In addition, motor vehicle dealers may offer their own discounts on vehicles, sometimes termed rebates. Although discounts or rebates offered by dealers may be excluded from the dealers' gross receipts from sales, rebates paid by manufacturers **must be included** in the measure of tax even if purchasers assign them to the dealers to reduce the amount the purchasers pay for the vehicles.

Unlike coupons, discounts, and other price reductions, rebates require some action by purchasers (either directly or by retailers as assignees of the purchasers) after the sales have been completed. Also unlike coupons, rebates result in cash payments to customers (either directly or to retailers as assignees of the purchasers) after the sales have been completed.

Example: An automobile manufacturer offers a \$1,000 rebate on one of its models. In addition, the dealership offers a \$500 discount on the same model, which it terms a dealer rebate. A customer buying a \$15,000 car assigns his right to the manufacturer's rebate to the dealership reducing the amount he must pay for the car by a total of \$1,500. The sales tax due on this transaction is 6% of \$14,500 (\$15,000 minus \$500) or \$870. Even though the manufacturer's rebate of \$1,000 is applied to reduce the amount being paid by the customer, it may not be used to reduce the measure of tax.

Effect on Other Documents: This Policy Statement supersedes **Policy Statement 98(1.1)**.

Effect of This Document: A Policy Statement is a document that explains in depth a current department policy or practice affecting the liability of taxpayers. Unlike a Ruling, a Policy Statement does not apply a policy or practice to a specific set of facts but it may be referred to for a general guidance by taxpayers. Unlike a Special Notice, it does not announce a new policy or practice in response to changes in state or federal laws on regulations or to judicial decisions.

For Further Information: Call DRS during business hours, Monday through Friday:

- 1-800-382-9463 (Connecticut calls outside the Greater Hartford calling area only); or
- 860-297-5962 (anywhere)

TTY, TDD, and Text Telephone users only may transmit inquiries anytime by calling 860-297-4911.

PS 2007(5)
Sales and Use Taxes
Coupons, Discounts, Rebates
Issued: 09/18/2007

Forms and Publications: Forms and publications are available anytime by:

- **Internet:** Visit the DRS website at www.ct.gov/DRS to download and print Connecticut tax forms; or
 - **Telephone:** Call **1-800-382-9463** (Connecticut calls outside the Greater Hartford calling area only) and select **Option 2** from a touch-tone phone or **860-297-4753** (from anywhere).
-

Paperless Filing/Payment Methods (fast, easy, free, and confidential):

- **For business returns, tax payments, and electronic bill payments:** Use the *Taxpayer Service Center (TSC)* to file a variety of tax returns and extensions, as well as to pay taxes or bills over the Internet. Visit the DRS website at www.ct.gov/DRS and choose the *TSC* logo or *File/Register OnLine* for a complete list of taxes that can be electronically filed and paid.
 - **For income tax returns, extensions, estimated payments, and electronic bill payments:** Use the *Taxpayer Service Center (TSC)* to file personal income tax returns and extensions, or to make estimated payments and electronic bill payments over the Internet. Visit the DRS website at www.ct.gov/DRS and choose the *TSC* logo or *File/Register OnLine*.
-

DRS E-News Service: Get connected to the latest news from DRS. Receive notification by email of changes to legislation, policies, and procedures. **DRS E-News** is easy to sign up for – visit www.ct.gov/DRS and follow the directions. Subscription services are available for employer's withholding tax, *TSC-BUS* Online Filing Alerts, News – Press Releases, and Top 100 Delinquency List.